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ABSTRACT

The use of either tax credits or an expansion of existing financial aid programs to aid middle income students is examined in this paper. Section I describes various types of mechanisms for providing student financial assistance and explains the current legislative proposals in relation to proposals of an earlier time. An evaluation of key legislative proposals is made in Section II. Section III and IV provide more detailed discussions of fundamental issues underlying the ongoing debate about government financial support of education. Section III evaluates the case for the existence of a "middle class squeeze." Section IV explores the case for the existence of support of private schools and institutions of higher education. Section V offers some conclusions and recommendations. (Author)

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PAPERS IN EDUCATION FINANCE

Paper No. 14

STUDENT FINANCIAL AID PROPOSALS AND THE MIDDLE INCOME "SQUEEZE": TAX CREDITS OR EXPANSION OF BASIC GRANTS

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EXECUTIVE SUMMARY

Despite general agreement in Congress that more financial aid should be provided for education, no consenus has been reached on the mechanism that should be used. Obstensibly, the issue is over what mechanism should be used for distributing aid to middle income students and their families and over how much aid should be given. To a large extent the issue has polarized over whether aid should be given to students through a tax allowance or through existing student financial aid programs. However, the purpose is not singular, nor the choices for implementation clear.

Congress is also interested in aiding private institutions, increasing institutional accountability, and maintaining and improving individual choice. Given different policy objectives, the degree of debate over various pieces of legislation is not surprising. Each bill would affect differently the achievement of a particular goal.

The alleged "squeeze" of middle income families of students is one of the key rationales used to support proposals for aid to middle income students and their families; however, available data do not yield convincing evidence either to confirm or deny the allegation of a middle income squeeze. The measurements used for estimating ability to pay and price of education for students from different income groups are not valid, and one can not conclude from observing only changes in enrollments that there is a financial squeeze of middle income students and their families.

The choice of an appropriate aid program requires weighing and evaluating

different objectives by any number of criteria. Choosing among current Congressional proposals, it seems that a modification of existing student financial aid programs, along the lines specified by Senator Pell (S.2539), is preferable to any of the current tax credit proposals. The modified Basic Grant and Guaranteed Student Loan programs would be more effective than the proposed tax credit plans in aiding middle income students and in reducing the tuition gap. Many of the tax credits would be claimed by people who are not likely to change their plans for education because of the credit. For these people the aid becomes tax relief.

However, because an aid program can be structured and targeted for nearly any population of individuals and institutions, preference today for a program modifying the Basic Grant program over a program establishing a tax credit does not exclude the possibility of, or make inconsistent, one's preference tomorrow for a tax credit over a Basic Grant program.

A noticed absence in the federal deliberations of this issue is consideration of financial aid programs offered by the states and of the impact of proposed Congressional legislation on the states. The proposed federal legislation can affect the states' tax revenues and their pricing and financial aid policies in education. There are important questions of substitution and supplementation between federal and state aid which are important to both levels of government.

As with most social goals, aid to middle income students is not "pure" but instead intertwined with other objectives which often conflict with each other in their achievement. Consequently, it is difficult to identify any particular

mechanism as the "best." What the best alternative is depends on what one deems to be the best compromise among various goals.

INTRODUCTION

The issue that has dominated Congressional discussion this year in postsecondary education, and to a lesser degree in elementary and secondary education, is financial aid. Although issues of financial aid have been debated many times, this year is unique. Beginning in the second half of 1977, the issue has been to determine the best way to provide aid; that additional aid should be provided has been nearly a foregone conclusion. Despite general agreement that more aid in some form should be provided, debate has been extensive and no consensus reached on the mechanism that should be used. Obstensibly, the issue is how to increase aid for middle income students and their families, polarized over whether aid should be given to the student through a tax allowance scheme or through existing student financial aid programs. However, the purpose is not singular, nor the choices for implementation clear.

While much, and perhaps most, of the Congressional concern has been with providing financial relief to students of middle income families, other major objectives exist. Aiding private institutions, increasing institutional accountability, and maintaining or improving individual choice are other reasons behind the general support for financial aid for education. Given different policy objectives, however, the degree of debate over various pieces of proposed legislation is not surprising -- each will affect differently the achievement of a particular goal.

Even the interested observer finds it difficult to track the numerous legislative proposals for providing aid and is confused by the contradictory

conclusions and opposing arguments presented in the news media and scholarly evaluations of various proposals.

The purpose of this paper is primarily an informative one. Its objective is to explain the likely effect of various proposals and to clarify apparent differences that have arisen. It is not an exhaustive document either in scope or in depth. Some issues, such as the constitutionality of aid to private schools, while clearly an important issue, are mentioned but not discussed. The debate over the separation of church and state is complex, technical, and lengthy. This topic is better treated separately and by persons more qualified to address the issue than the author.

Other issues are also omitted or mentioned only briefly so that greater attention can be given to a smaller number of key aspects of the deliberations surrounding the main Congressional proposals. Furthermore, although most of the Congressional proposals for providing aid are limited to the postsecondary sector, the Packwood-Moynihan proposal is one of the most popular, and it provides aid to families of students at all levels of education. While more attention is given in this paper to financial aid issues at the postsecondary level, certain unique aspects of aid to private schools in general are also considered.

Section I describes various types of mechanisms for providing student financial assistance and explains the current legislative proposals in relation to proposals of an earlier time. An evaluation of key legislative proposals is made in Section II. Sections III and IV are more detailed discussions of fundamental issues underlying the ongoing debate about government financial

support of education. Section III evaluates the case for the existence of a "middle income class squeeze." Section IV explores the consequences of federal support of private schools and institutions of higher education. Section V offers some conclusions and recommendations.

I. MECHANISMS FOR PROVIDING STUDENT FINANCIAL AID

A host of direct and indirect mechanisms can be used to provide financial aid to students in higher education. Current assistance programs include such things as scholarships, tax exempt status granted to institutions, no tax on the formation of human capital, and tax deductions for the cost of certain educational expenses. The largest single source of assistance available to any student attending an institution of higher education is the state subsidy realized in the below-cost tuition charged by state colleges and universities, a subsidy generally worth about $2,500 a year. To set the cost of the education financial assistance proposals in perspective, it is worth noting that most current proposals will cost less than two billion dollars a year, while the cost of state subsidies, solely in the form of below-cost tuition, is about $15 billion a year.

In 1978 different aid mechanisms discussed at the federal level can be categorized by two basic types: (1) creation of a tax allowance in some form for educational expenses and (2) expansion of existing programs of student financial aid authorized under Title IV of the Higher Education Act of 1965. In this section, the various mechanisms will be explained, and the main

provisions of past proposals and current key proposals now under consideration by the Congress will be reviewed.

Tax Allowances

There are three basic types of tax allowances: deductions, credits, and deferments. A deduction for educational expenses provides financial assistance by reducing the taxable income of the student or the student's family. The main feature feature of a deduction, vis a vis other aid mechanisms, is that it provides greater tax relief to higher income people because of the progressive structure of the federal income tax. For example, a deduction of $100 to a person in the 50 percent marginal tax bracket is $50 while the same deduction is worth $25 to a person whose marginal tax rate is 25 percent.

A tax credit reduces the taxpayer's liability directly. Because it is subtracted directly from taxes owed, it is worth its full amount and is the same for everyone (unless it is a nonrefundable credit in which case the value of the credit is limited to tax liability).

A deferral is the third type of tax allowance. It is essentially a loan; it allows taxes on funds used for meeting educational costs to be paid at a later time. The person receiving the deferment may or may not be the person

liable for payment of the postponed taxes.*

In the 1950s and 1960s there was Congressional interest in providing tax allowances for college expenses. However, many Congressmen were against tax deductions because benefits would go mostly to high income families, and, many were against "straight" tax credit proposals because the resulting distribution between high- and low-tuition institutions would not be satisfactory.

In 1963, Senator Humphrey introduced a bill that provided tax credits for educational expenses on a graduated cost scale. In 1967, Senators Ribicoff and Dominick proposed a plan that gave tax credits for educational expenses at the college level on a scale graduated for both income and cost.

Both proposals received the support of the leadership of both parties. Neither, however, became law. The Humphrey proposal was opposed by President Johnson, who exerted enough pressure on the Senate that some of the sponsors voted against their own bill in 1964 (Freeman, 1971, p. 214). The Ribicoff bill in 1967 became the first education tax credit plan to pass the Senate, but it died in joint conference with the House (Congressional Budget Office, p. 21).

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*Although representative Abner Mikva has a proposal to allow a family to defer up to $1,000 of taxes for college costs and New York State has passed a program that defers state income taxes, tax deferral plans have not received the Congressional attention that tax credit plans have; therefore, this type of tax allowance will not be discussed further.

If it had been enacted, it would have provided a maximum tax credit of $325 for expenditures for tuition, fees, books, and supplies according to the following schedule: 75 percent of the first $200 of expenses, 25 percent of the next $300, and 10 percent of the next $1,000. The amount of credit would be reduced by 1 percent of adjusted gross income greater than $25,000. Thus, a person with educational expenses of $1,000 and an adjusted gross income of less than $25,000 would receive a tax credit of $275. If the person's income were $50,000, the credit would be $25.

Since the 1960s hundreds of other tax allowance bills with varying provisions have been introduced in the Congress. Chart 1 lists a number of the key tax allowance bills that have been presented, beginning with Ribicoff's 1967 bill.

Packwood and Moynihan's Senate Finance Committee Proposal

A tuition tax credit plan approved by the Senate Finance Committee and sponsored by Senators Packwood and Moynihan is attached to H.R.3946. It is the fusion of S.2142 (Packwood and Moynihan) and S.311 (Roth). It provides a maximum tax credit of 50 percent of tuition and fee expenses with a limit of $500. Students at all levels of education are eligible, and if the calculated tax credit exceeds tax liability, a refund is made. Part-time students are also eligible on a pro-rated basis (CRS, pp. 15-20).

CHART I

CHARACTERISTICS OF SELECTED FEDERAL PROPOSALS FOR PROVIDING FINANCIAL ASSISTANCE TO STUDENTS

Tax Credit or Deduction Types of Proposals

Name/Sponsor	Type of Assistance	Maximum Amount of Aid	Factor Adjustments	Refund Provision	Expenses Covered	Level of Education	Student Eligibility
Ribicoff (1967)	credit	$ 325	-credit reduced by 1% of income over $25,000[a] -75% of 1st $200 25% of next $300 10% of next $1,000	no	tuition & fees books & supplies	college	full-time only
Ribicoff (1969)	credit	$ 325	-credit reduced by 2% of income over $15,000 -100% of 1st $200 25% of next $300 5% of next $1,000	no	tuition & fees books & supplies	college	full-time only
Bellmon (1971)	Identical to Ribicoff (1967) but contains refund provision.						
Buckley (1975)	deduction	$1,000		no	tuition	all	
Roth (1976)	credit	$ 250		no	tuition & fees books & supplies	college	
Bellmon (1977) S.96	credit	$ 325	-credit reduced by 1% of income over $25,000 -25% of 1st $200 25% of next $300 10% of next $1,000		tuition & fees books & supplies	college and graduate	all
Roth (1977) S.311 College Tuition Tax Relief Act of 1977	credit	$ 500[b]		no	tuition & fees books & supplies	college and area vocational education schools	full-time only
Schweiker (1977) S.834 Tuition Tax Relief Act of 1977	deduction or credit	credit: $250 deduction: $1,000	credit limited to 50% of tuition	no	tuition	all	
Packwood, Moynihan, Roth (1978) H.R. 3946 (combines S.1570 [Moynihan], S.2142 [Packwood and Moynihan], and S.311 [Roth])	credit	$500	50% of expenses	yes	tuition & fees	all	all
Vanik (1978) H.R. 12050 (revised H.R. 11776)	credit	$250[c]	25% of expenses	no	tuition & fees	college and vocational school and elementary and secondary	half-time or more

Expansion or Modification of Existing Programs

Carter (Feb. 8, 1978) S.2538 & H.R.10854 Middle Income Student Assistance Act of 1978	-BEOG: $1,800 guaranteed $250 if AFI[d] less than $25,000; independent students with dependents treated as dependent students' families -GSL: eligibility for in-school interest subsidy extended from AFI = $25,000 to AFI = $40,000
Pell (Feb. 10, 1978) S.2539 College Opportunity Act of 1978	-BEOG: rate applied to parental discretionary income[e] for calculating expected family contribution lowered to 10.5% -GSL: eligibility for in-school interest subsidy extended to all
Ford (Mar. 3, 1978) H.R.11274 (revised H.R.10854) Middle Income Student Assistance Act	-Similar to S.2539 but, if full funding not made, 12% rate applies to parental discretionary income -increased protection of largest BEOG grants if less than full funding

[a] Adjusted gross income.

[b] $250 in 1977; $300 in 1978; $400 in 1979; $500 in 1980.

[c] College level: $100 in 1978; $150 in 1979; $250 in 1980 elementary and secondary level: $50 in 1978; $100 in 1979 and 1980.

[d] AFI = Adjusted family income = adjusted gross income plus transfer payments and one-half of any veterans' education benefits received.

[e] Parental discretionary income = income available for non-subsistence or non-essential items according to the Basic Grant need analysis.

Existing Federal Student Aid Programs

Six basic aid programs are authorized under Title IV of the Higher Education Act of 1965 as amended. The backbone of Title IV is the Basic Educational Opportunity Grant (BEOG) program, which provides grants to low-income students and is administered nationally. A grant covers up to 50 percent of educational expenses, not to exceed $1,800, although the level of appropriations ($2.1 billion in fiscal 1978) has kept the actual maximum award to $1,600; the minimum award is $200.

The Supplemental Educational Opportunity Grant (SEOG) program is intended to supplement BEOG awards for particularly needy students. The maximum award is $1,500. The program is administered by the individual institution. Appropriations in fiscal year 1978 were $270 million.

The College Work-Study (CWS) program is also managed by the institution. CWS participants are given part-time jobs to help pay for their educational or living expenses. Funds are provided to the states on a matching basis with the federal government paying 80 percent of the wages. Appropriations in fiscal year 1978 were $435 million.

The State Student Incentive (SSIG) program is intended to encourage states to establish or expand state student grant programs for undergraduate students. The federal government matches on a one-to-one basis new state dollars designated for student grant programs. The maximum allocation to a state is set by a formula based on attendance patterns. Appropriations in fiscal year 1978 were $64 million.

The Guaranteed Student Loan (GSL) program allows the federal government to guarantee repayment of loans made to students by nonfederal lenders. The interest rate is seven percent, and the interest incurred while the student is in school and during the first year after school completion is waived for students whose family adjusted gross income is less than $25,000 a year. A student can borrow up to $2,500 per year and a total of $7,500 over four years. Appropriations in fiscal year 1978 were $281 million.

The National Direct Student Loan (NDSL) program provides, through postsecondary educational institutions, long-term, low-interest loans to students with financial need. The government contributes 90 percent of the cost; the institution, 10 percent. Appropriations in fiscal year 1978 were $326 million (NAICU, pp. 3-36).

The Administration's Proposal

On Feb. 8, 1978, President Carter proposed in H.R.10854 and S.2538 to amend the existing student assistance programs. The essence of the proposed changes are as follows.

BEOG: fully funded so that the maximum award would be $1,800 (from a current level of $1,600); every full-time student whose adjusted family income (AFI) is less than $25,000 would be entitled to a $250 grant; liberalized treatment of assets; independent student with dependent(s) is treated the same as dependent student's family.

GSL: increase in the in-school interest subsidy cut-off from AFI of $25,000 to $40,000.

In the Senate, S.2538 has been shadowed by Senator Pell's S.2539 which also modifies the existing federal aid programs but with two major variations

from Carter's proposal. One is the change in the percentage of parental discretionary income (income available for non-subsistence or non-essential items) considered in calculating the expected family contribution of a student. Currently, the amount of the expected family contribution is 30 percent of the first $5,000 of discretionary income and 20 percent of discretionary income beyond that. S.2539 reduces the rate to 10.5 percent of all discretionary income. The $250 entitlement grant to middle income students, contained in the Carter proposal, is deleted. The other major change is to provide the in-school interest subsidy for the GSL to all students regardless of income.

In the House, the Carter proposal was amended and approved and rewritten as H.R.11274, which contains changes similar in essence to S.2539. In the discussion about modification of existing aid programs, which follows in the next section, reference is made for convenience to S.2539 although it generally applies equally to H.R.11274. Chart 1 includes President Carter's proposal for modifying existing programs as well as the variations proposed by Congressmen.

Before evaluating specific Congressional proposals for providing student financial aid, two comments should be made. The first is that no generic program is better than some other generic type of program. That is, it is not possible to say, for example, that a tax credit provides lower income families more aid than a deduction or that a tax credit program benefits the rich more than the poor. Too much depends on the specific provisions of the particular program. Adjustments for income (or any other factor) can be incorporated into the structure of a student aid program to make the program more or less progressive than any other program of assistance.

The second comment is that as we compare the merits of various alternatives before Congress, we should be aware that the range of options being considered by the Congressmen is not the full range of possibilities. Options that many would judge as superior to any that are being considered have been omitted. While there are a number of criteria by which a program can be evaluated, the two criteria generally considered most important are, unfortunately, either absent in the current proposals before Congress or present in some unsatisfactory form. One criterion is that the program be structured so that the size of the award decline as income rises. The other is that aid increase with cost. To the extent that the purpose of these programs is to aid financially needy students, incorporation of the two main elements of need -- income, or ability to pay, and cost -- should be included.

When the choice is made this year, it is important to know what was gained and what was missed.

II. EVALUATION OF KEY LEGISLATIVE PROPOSALS

At this time in early June, it appears that, if a student financial aid program for students from middle income families is enacted, it will take the general form of either Senator Pell's version of the Administration's proposal, S.2539, the College Opportunity Act of 1978, or a tax credit plan either for postsecondary students exclusively (perhaps Roth's 311) or for students at all levels (Packwood and Moynihan's S.3946).

Although nearly everyone has a position on each proposal, the number of analytical evaluations are few. There are only three in-depth, objective examinations of the likely effect of any of these proposals. One is a report by the Congressional Budget Office (CBO) which evaluates five alternative programs of aid for middle income students by applying to each alternative six criteria: cost, distributional efficiency, fairness and equity, institutional diversity, ease of administration, and budget visibility and controlability (CBO, 1978).

The American Council on Education (ACE) has published the most comprehensive analysis of Roth's S.311. ACE estimates the cost of the program, the distribution of benefits among families of different income, and the distribution of benefits by type of institution. These estimates assume a static situation, that is, that the distribution of students does not change with the adoption of the tax credit provision. The report then provides estimates of the effects of the tax credit, given likely student and institutional response to the changed cost structure created by the tax credit (ACE, 1977). This study is the only one that estimates the dimensions of these dynamic aspects.

The third major study is by Joseph Froomkin, who draws upon the 1976 Survey of Income and Education, which has more accurate information on income and education costs than other data sets, and compares the cost and distribution of benefits of a $250 tax credit and a modification of the BEOG program.

The purpose of this section is to explain the likely effect that key

proposals for modifying existing aid programs and for establishing a tax credit would have according to a set of narrowly defined criteria.* The criteria for evaluation are cost, concentration of benefits in middle income categories, equity of the distribution of benefits among institutions, and administrative and budgeting practicality. The explanation of the effects of the proposals draws upon the three studies just mentioned but is not limited to them.

Cost

Implementing Senator Pell's S.2539 would add approximately $1.5 billion to the existing $2.1 billion BEOG program. The cost of the Packwood-Moynihan proposal would be only $39 million in fiscal year 1978 but would rise over the next few years as the size of the credit was increased and the credit was extended to elementary and secondary, part-time, and graduate students. In 1982 the estimated cost would be $4.5 billion (CRS, p. 20). It is estimated that three-fourths of the dollar amount of the tuition tax credits would go to students at the postsecondary level (AEI, p. 21). While the increase in the average amount of the BEOG award approximates the estimated average amount of the credit, the difference in total cost is that part-time and graduate students are eligible under the Packwood-Moynihan proposal; only college-level students attending half-time or more are eligible for Basic Grants.

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*Broader issues, such as taxpayer equity, the treatment of the educative process as the formation of capital, and the equity between student and nonstudent, to name a few, are not included because each deserves lengthy treatment that would distort the purpose and exceed the appropriate length of this paper.

These cost estimates understate the probable actual cost for two reasons. First, estimates exclude the cost of administering the programs. No specific cost figures are available but undoubtedly establishing eligibility or monitoring claims for the large number of persons these programs are intended to cover would require expansion of whatever agency is responsible for administering the program. Second, the estimates neglect to account for the increased enrollments that the financial aid may induce. There is no accurate estimate of this additional cost, but it probably would not exceed five percent of the original amount (calculated from data in ACE, pp. 17, 51).

Another, subtle cost may result through a reiterative process. The awarding of a tax credit may encourage institutions to raise tuition levels, creating additional need and thus the need for additional financial aid to maintain the initial level of relief. There is no evidence of the likely pricing behavior that an institution will adopt under these circumstances. Opponents of tax credits think that institutions will raise tuition to capture the value of the credit. Proponents claim either that institutions of higher education always have felt a responsibility to keep costs down as much as possible or that because the proposed tax credit covers only 50 percent of costs, competitive pressure will prevent costs from rising unnecessarily. At the elementary and secondary level, the tradition and belief in the appropriateness of providing free public schooling would make it very difficult (if it were not constitutionally prohibited) to institute tuition at public schools.

The Distribution of Benefits Among Students

If middle income is defined by an adjusted gross income of more than $10,000 and less than $30,000, middle income families of students would receive 68 percent of the benefits under the Packwood-Moynihan proposal. Only 15 percent would go to students of families with incomes greater than $30,000 (House testimony, p. 53).

Under S.2539 some 89 percent of the increase in BEOG benefits (the major component of the bill) would go to students with family incomes between $9,900 and $26,500 (calculated from data in Senate Report 95-643, p. 5); overall, the modified program would give 56 percent of its benefits to this income group. Currently 37 percent goes to this group (Senate Report 95-643, p. 5). Further discussion of the benefits students receive is contained in Section IV.

Distribution of Aid Among Institutions

There is no estimate of the likely distribution among institutions of the proposed additional BEOG benefits. A crude estimate can be derived from data on the distribution of existing BEOG benefits. In 1977, the distribution of BEOG benefits between public and private institutions was approximately proportional to full-time undergraduate enrollment (computed from NAICU, p. 6; NCES, p. 87). This proportionality is unlikely to remain if S.2539 is adopted. There is a positive correlation between a student's average family income and the cost of attendance, and the average cost of attendance at private institutions is greater than the average cost of attendance at public schools.

The proposal to increase aid to middle income students represents an upward shift in the average income of the student supported. Consequently, more of the benefits will be carried by the students to higher-priced (presumably private) institutions.

A distribution of the benefits of a straight tax credit is easier to estimate than the distribution of BEOG benefits because it does not depend on the distribution of income. Despite the easier computation, no estimate has been made of the distribution among types of institutions of credit benefits provided by the Packwood-Moynihan bill. There is, however, as estimate of the distribution of benefits under the Roth proposal (S.311). In 1977, when the maximum tax credit would be $250, 69 percent of the benefits would go to public institutions. By 1980, when the credit would reach its maximum of $500, 67 percent of the benefits would go to public institutions (despite a slight increase in the proportion of enrollments in public institutions) (calulated from data in ACE, p. 49). This slight trend toward more aid to private institutions would be substantially increased by the Packwood-Moynihan proposal because the credit is limited to 50 percent of tuition and fee expenses. Students at higher priced institutions would continue to receive the full value of the credit. Students attending institutions that cost less $1,000 would, because of this provision, have the value of their benefits reduced to 50 percent of tuition and fees. Community colleges would be the institutional sector most influenced by this provision.

Offsetting the estimate of the amount of benefits going to private institutions is that part-time as well as full-time students would be eligible for the tax credit (on a prorated basis) under the Packwood-Moynihan bill.

S.311, the Roth proposal, is limited to full-time students. With many part-time students attending community colleges and the fewest number attending four year private institutions, more benefits would go to public institutions than would if the credit were restricted only to full-time students.

Ease of Administration and Budgeting

It is not clear whether the respective programs could be better administered through the Office of Education or the Internal Revenue Service. Arguments have been made claiming that bureaucracies will or will not increase as a consequence of the adoption of the bills and that one form is easier to fill out than another. As one person has said, the issue is over having "a system administered by Office of Education and college bureaucrats and one administered by taxpayers and IRS bureaucrats," (Rice testimony, p. 13).

There is also a difference in the administration of the two types of aid programs that may affect the effectiveness of the programs. To the extent that additional aid induces new enrollments, a tax credit may be less effective than a grant program of the same dollar value to the student. The grant is made at the beginning of the year; the tax credit is paid after the end of the calendar year, and the student or family must carry the full cost from the time expenses are paid at least until federal income taxes are filed.

There is also a preference for providing aid through a structure that is periodically reviewed. It is argued that line items in the budget, such as the BEOG program, provide a better means of annual review than tax credits.

Furthermore, once a tax allowance is made, Congress has no direct control over the aggregate amount of the credits claimed, while it can fix a dollar amount for BEOG appropriations.

III. AID TO MIDDLE INCOME STUDENTS

The "classic" argument for aiding middle income students is that they constitute the neglected class of students. The contention is that the middle income student is too wealthy to receive need based aid and too poor to meet the rising cost of attendance.

It is not clear whether this is an accurate assessment of the plight of middle income students.

Data cited by those documenting the existence of a middle income student "squeeze" show that cost of attendance has increased faster than prices in general and that the median budget for the middle income family rose 43.6 percent while the U.S. average rose only 38.5 percent (CRS, p. 3; Leslie, p. 6). However, while costs have risen, income has risen also. Between 1967 and 1976, education costs increased 75 percent while median family income rose 89 percent (CBO, pp. 11-13), suggesting that the family of median income is more able to afford the costs of education. The fact that income has risen more than costs is not necessarily an appropriate measure; taxes have risen faster than income. Therefore, disposable income has not risen as fast as gross income. A more appropriate measure of ability to pay is discretionary income

-- disposable income minus subsistence expenses -- but estimates of change in discretionary income have not been a part of the debate over the existence of a middle income squeeze.

If it were correct that the ability to pay of a family of average income has declined in the last decade, it still is not clear that there is a middle income squeeze.

First, the fact that income has changed by a certain amount for the average family does not mean that it has changed equally for all income groups. The average income for the middle income group may or may not have changed as much as it has for the overall average family.

Second, cost of attendance is not uniform across income levels -- cost of attendance (determined largely by the type of institution a student attends) is positively related to the student's family income -- and the costs at different types of institutions may change at a different rate over time. Also, some middle and higher income students may now be applying to more expensive colleges than they would have a decade ago when competition for admission to the institutions was stiffer (Froomkin, pp. 3-4).

A third limitation of these data to explain the degree to which there may be an increased financial burden on middle income students relative to other students is that large amounts of aid go to middle income students through state and institutional programs and through the federal campus-based programs which reduce the actual price that a student pays to attend (Rice, pp. 7-8). To the extent that aid from these programs goes disproportionately to middle

income students, the cost-of-attendance factor overstates the financial hardship of these students.

Fourth, and perhaps most important, is the connotation conveyed by the term "middle income squeeze." The implication is that of a worsening position. If one were to accept the proposition that middle income students have suffered, since 1967, a greater financial burden than other students, the acceptance implies that in 1967 the ratio of the percentage of total costs that a student from the middle income level paid to the percentage of total costs that another student from a different income level paid (for the same education) represents an equitable, or more equitable, situation than is currently the case. And yet, if in 1967, low income students and their families had paid 50 percent of college costs, middle income students and families, 75 percent of costs, and high income students, 90 percent of costs, on what basis do we judge this equitable? It is an arbitrary judgment. One could argue that the change in the ratios from 1967 to 1976 represents a shift toward greater equity, that in 1967 there was a greater inequity in the portion of costs paid by students of different family incomes.

The relative nature of these comparisons does not mean that a decision can not be made about how aid should be distributed. Everyone has his or her own idea of what constitutes the proper distribution of financial burden among students' income categories. Documenting the relative changes that occur allows one to determine whether the changes improve or worsen the distribution. Through the political process these individual differences are reconciled.

A decline in recent years in the enrollment rate of middle income students

is also cited to substantiate the claim that these students face greater costs, relative to their ability to pay, than other students, but what one finds depends largely on the years one chooses to look at. Lois Rice of the College Entrance Examination Board in her testimony before the Subcommittee on Postsecondary Education in the House of Representatives said,

> For the college enrollment rate decline among the children of middle income families, the facts seem to be that the decline from the peak year of 1969 to 1976 for children from high-income and low-income families was worse than that for middle-income children....(Rice, 1978, p. 6)

However, if one were to compare enrollment rates in 1967 with those in 1976 (covering the same decade for which income and cost data were drawn), the outcome with respect to the low and middle income student enrollment rates is reversed. From Table 1, one can see that, using Rice's comparison of the peak

TABLE 1

PERCENT OF 18- TO 24-YEAR-OLD DEPENDENT FAMILY MEMBERS[a] ENROLLED IN COLLEGE, BY FAMILY INCOME,[b] OCTOBER 1967 TO OCTOBER 1976

Family Income	Percent Enrolled			Percent Change	
	Earliest Year 1967	Peak Year 1969	Latest Year 1976	1969 to 1976	1967 to 1976
$ 0-$ 8,525 (low)	20.0	24.8	22.4	- 9.7	+12.0
$ 8,525-$17,050 (low-middle)	37.9	38.8	36.3	- 6.4	- 4.2
$17,050-$25,575 (high-middle)	51.9	50.6	47.5	- 6.1	- 6.0
$25,575+ (high)	68.3	65.2	58.2	-10.7	-10.2
All income groups	39.1	41.3	38.8	- 6.1	- 0.8

[a]A dependent family member is a relative of the primary family head other than the wife.

[b]Family income in 1976 dollars, civilian noninstitutional population.

Source: Derived from Congressional Budget Office, p. 9.

year (1969) with the latest year (1976), the percent enrollment decline for low and high income groups was about 10 percent; for the middle income groups it was a little over 6 percent.

Although 1969 was the peak year for the overall enrollment rate, it was not the peak year for each income category. Upper income groups were already declining by 1969. Peak year aside, comparing the earliest year (1967) with 1976 shows that the enrollment rate for the low income group increased by 12.0 percent while the middle income groups declined by about 5 percent.

A third assessment of the decline in enrollment rates, using the same data from the Census Bureau, was made by the Congressional Budget Office. CBO, to avoid year to year fluctuations, grouped the earliest three years and the latest three years for their comparison. Their estimate shows reduced variation among the rates of decline, but the decline of the middle income groups remains greater than that for low income students (CBO, p.9).

If percent of enrollment decline is the proper indicator of what income group needs financial assistance, it clearly is the high income group that needs help. By all measures, its rate of decline is the greatest, averaging about 10 percent over the last decade. Current sentiment, however, is that students from families with high incomes can afford to pay higher costs if they want to go to college. When individuals with the financial ability to attend make a choice not to attend, it is of little concern to policymakers. Perhaps because the measure of opportunity to enroll is actual enrollment, there is concern for lower income individuals who do not participate to the same extent as other income groups.

Other critics have pointed out additional flaws in the interpretation of these data (see, for example, Froomkin, pp. 20-25) making more tenuous any judgment about what has happened to enrollment rates for students from different family incomes.

A problem more serious than the validity of the data is the inference that is often drawn from the observed changes in enrollment rates. If the contention is accepted as valid that during the past decade the enrollment rate for students from middle income families has declined more than for low income students, what can be said about the reasons for the decline? Proponents of increasing aid to middle income students cite the declining enrollment rate as part of the justification for aiding middle income students. The implied causality, between enrollment and ability to meet rising cost, however, has not been well established. The change in enrollment rates could be due to many other factors that influence attendance, and some of them may affect different income groups differently. Monetary returns to higher education have declined. People's lifestyles change; more people now are willing to continue their schooling at some later period in their lives rather than go to college immediately after high school. Personal tastes for education also change. Furthermore, the importance of these factors probably differs widely along certain student characteristics. One of the greatest distinctions is probably between men and women. Affirmative action and the prohibition of discrimination in school admissions and employment has had a significant effect on the participation of women in higher education. It would be interesting to have the previously referred to analysis of enrollment rates for different income categories broken down by sex and related to the change in the cost of attendance (adjusted for financial aid received) that students in these income

groups experienced.

There are many good economic, political, and social reasons for helping students from middle income families meet their educational costs, but the major arguments that are involved for taking that action can not be defended solely by the data presently available.

IV. GOVERNMENT SUPPORT OF PRIVATE EDUCATION

The debate over what the government's role should be in supporting private education can be better treated perhaps by viewing the issue separately for elementary and secondary education and for postsecondary education. There are historical developments and unique characteristics of each level that result in different problems. Private institutions of higher education have received aid directly and indirectly throughout most of the nation's history. The issue of aid to private schools is entangled with the constitutional issue of the separation of church and state. There are also differences of governance, sources of revenue, and beneficaries of the education provided. The underlying concern is with the vitality of the whole educational system — providing better educational services, giving students a choice of educational options, increasing accountability, and providing incentives for delivering services more efficiently — but discussion of this concern takes form through different issues. The issue at the elementary and secondary level has been whether aid should be given to private schools. At the postsecondary level the question is not "whether" but "how" and "how much." Discussion here will be couched in

terms of aid to private schools at the elementary and secondary level and the tuition gap at the postsecondary level.

Aid to Private Schools

There are three main divisions to the question of aid to private schools. One is the constitutional issue of the separation of church and state, upon which opinion among experts varies widely and strongly. Typical of the debate is the disagreement that occurred in Congressional hearings. One expert witness at the Senate hearings indicated that there is sufficient legal precedent in this area to judge unconstitutional the proposed Packwood-Moynihan mechanism of providing aid to private schools. Another expert witness stated that the issue is open, one without precedent, and one that the likelihood of its being held constitutional by the Supreme Court would be difficult to assess (Senate Testimony, pp. 86-105; 129-146).

A second aspect of the issue of aid to private schools is the threat that it represents to public schools. One argument is that public funds spent on private schools are funds not spent on public schools. This argument assumes that financial support of education is a zero-sum game, that is, allocating an additional dollar to one school means that some other school (or schools) loses a dollar. However, most evidence indicates that this is not an accurate assessment of the nature of support for education.

Many opponents of support for private schools fear that public schools will lose students to private schools. Their concern has two bases. One is

that the financial plight of public schools will worsen. As students leave the public school system, attendance will drop and with it state aid, which is often based on average daily attendance or some other measure of the number of pupils. Proponents of aid to private schools argue, however, that each child who goes to a private school saves taxpayer money. The amount of the saving equals the difference between what the public pays to support the private school student and what it costs to educate the student at a public school. If each year of public schooling per child costs $1,500, the government unit responsible for providing that $1,500 could save money by sending the child to a private school as long as the cost of aid provided the family for switching schools is less than $1,500 (if the private schools closed, the government would have to spend that $1,500). This hypothetical figure, of course, applies to the student at the margin. If large numbers of students shifted from public to private schools, problems of changing scales of operation such as use of classroom facilities and other fixed costs would arise, altering average per pupil costs.

While the loss of revenue to the public schools may affect the quality of education they are able to offer, the second basis for opponents' concern about public schools losing students is that the average quality of student may drop. It is feared that the more capable students will be the first to leave public schools for private schools, resulting in a lower average-ability student in the public schools. One criterion for a good teaching and learning environment for a student is to be with a number of other better students. If the more able children leave, it is felt that those who remain in the public schools will have an inferior school environment. Thus, some would argue that students should be taught in mixed groups.

The cost-savings issue and the student-quality issue are both intertwined with the argument over the effectiveness and efficiency of public and private schools. In Senate testimony on the Packwood-Moynihan tax credit proposal, several witnesses stated that the average per pupil costs in public schools is much higher than for private schools. For example, the director of the Congress of Racial Equality (CORE) said that the per year child cost at a CORE school is $1,000 and nearly $3,000 per pupil for the New York City public schools. Other witnesses gave similar comparisons (Senate testimony, pp. 106, 108). This measure of efficiency, however, is misleading because much of public school expenditures are made for items only peripherally related to education. To continue the example of New York City, while some of the higher cost may be attributed to an excessive bureaucracy, much of their per pupil expenditures are for such things as meal programs, transportation, or debt financing. These items are generally not included in the private school figures. In fact, the effective (classroom) expenditure level for New York City is at about the twentieth percentile nationwide (Gifford, 1978). There is also a disproportionate number of students in public schools requiring special attention, such as those receiving aid under compensatory education or bilingual education, which raises the average per pupil costs. Furthermore, services in private schools, such as teachers and parent volunteers, can be obtained less expensively than in public schools. The apparently greater efficiency of the private schools is not as clear as many proponents of aid to private schools suggest.

There is also a claim that private schools are more effective, that is, that private school students learn more than public school students, measured by student achievement tests results. How much of this superior achievement is

a function of anything the school does and how much a function of what the family or student may do before or independent of school is not determined. Before much stock is placed in these figures of comparison, some control should be imposed for nonschool factors. Student ability, motivation, and preparation are important variables. If private schools were compelled to educate the number and type of students that public schools do, the difference in outcomes might not be as great as they currently are.

All of the legislative proposals currently under consideration provide such modest sums of aid that one might argue that there would be, in all probability, only small shifts in enrollments. Thus, it is easy to say that the proposals would improve individual choice, inject a healthy element of competition, and generally improve the educational environment, while at the same time arguing that, because only a small percentage of children would change institutions, those children who remain in public schools would have sufficient variation in student abilities and interests to maintain a viable learning environment. The crux of the matter is that, once aid is given, appropriations may increase in subsequent years to the point at which major shifts in students do occur. However, basing a policy decision on the possibility that an inferior learning environment may evolve partially as a result of the proposed change is a weak argument. There are good and sufficient reasons for broadening choice. The issue of educating "hard core" disadvantaged students is a separate issue.

The third major aspect of the issue of aid to private schools is racial segregation. During the early seventies when school districts were forced to carry out court ordered desegregation plans, many private academies were

established and supported by whites who wanted to avoid integrated schools for their children. Hardly anyone has spoken to this issue in relation to the current proposals for tax allowances for parents sending their children to private schools, but staff at the Lawyers' Committee For Civil Rights Under Law feel that during the turn of the decade some of the white students, who had left the public schools, began to return to the public schools largely because of the financial burden on their families paying private school tuition. The Committee feel that any federal support for the parents of these children would encourage them to keep their children in private schools (Lawyers' Committee For Civil Rights Under Law memorandum, Feb. 24, 1978). Proponents reply that such schools would not be eligible institutions under the proposed program of aid. While one might be skeptical of how effective such a provision would be in preventing segregation from occurring, rejecting the idea of aid to private schools on the basis that a few schools may attempt to circumvent one particular provision of the law is an unwise basis for making public policy.

The Tuition Gap and Higher Education

Of the three issues discussed regarding elementary and secondary education only one issue -- the "threat" of private education to public institutions -- is also an issue at the postsecondary education level. The issue itself is not very interesting compared to the debate over the likely effect that expanded aid through students would have on postsecondary education institutions. The issue in simple form is that "publics" believe that there should be available educational options at low cost to the student. "Privates" believe that there are better alternatives to low tuition policies to aid needy students and that

whatever enrichment public institutions offer students, private institutions are no less effective in enrichening students and should be entitled to the same degree of financial support from public funds that public institutions receive.

The possible outcomes are also different. At the elementary and secondary level, public schooling is free to the student. Any program that gives a tax allowance will reduce the price only at private schools. The result is that enrollment shifts, due to the tax allowance, will occur only from public to private.

In higher education shifts may occur in both directions. The direction and magnitude of the shifts is the debate. One group says that private institutions will benefit more than publics; others say that publics will gain more; still another group argues that the proposed tax allowance schemes won't make much difference. Understanding how these discrepancies exist requires careful consideration of the data and the arguments upon which these statements are based.

Those who argue that publics will be the greater beneficiary are generally referring to a flat amount tuition tax credit. Their reasoning is that an award of a fixed amount will reduce the price of a public institution relative to the price of a private institution. To illustrate, if a private institution charges $1,500 in tuition and a public institution charges $1,000, the private institution is half again as expensive as the public institution. A $500 tuition tax credit would reduce the tuitions to $1,000 and $500 for private and public institutions, respectively, but the private institution would now be

twice as expensive as the public institution.

The argument continues that a credit that equals some fixed percentage of cost will reduce the absolute tuition gap and will aid private (higher cost) institutions more than a flat amount credit would, but it is not clear what the distribution of benefits or students would be among institutions.

The institution one attends will depend upon the utility a student would derive from spending the dollar amount of the tax allowance on some other product or service or for attendance at some other institution. To illustrate, consider a student who attends a public institution that costs $1,000. If offered a $500 tax credit for educational expenses, the student may or may not act differently. The student will consider whether the utility derived from spending $1,000 ($1,500 for the private institution minus the $500 credit) on education is greater than the utility derived from spending $500 (the $1,000 currently spend minus the $500 credit) on education and $500 on other non-educational items. If the student chooses the first option, he or she will switch to the private institution and pay $1,500 to attend and will receive $500 of it back through the credit. If the student chooses the second option, he or she will stay at the public institution but will reduce the cost of attendance by $500 by continuing to pay $1,000 to attend and receiving $500 back as a credit. In this example, the credit is large enough to cover the full difference in the costs of the institutions. If, however, the credit were worth less than the tuition gap between the two institutions, it is less probable that the student would switch to the more expensive institution. The outcome will be different for different people.

There may also be some very small amount of shifting of enrollments from private to public, but the only condition under which it might occur would be a situation of limited divisibility of other goods and services. It is most likely that the net change of enrollments would be from public to private. It is, however, important to make a distinction between (a) a student who, given a tax credit, attends a private institution when without the credit would attend a public institution and (b) a student who chooses to attend a private institution, given a credit, when the student would not attend at all without the credit. It is not clear what percentage of students who attend without a tax credit would change type of institution if given a credit, but most of the changes that would occur would be shifts from public to private institutions.

In the situation of the credit inducing new enrollments, it is more likely that a larger number of the new students would attend a public institution, but the total number of new students would probably represent no more than five percent of the current total enrollment (derived from ACE, 1977). A combination of these two groups — students who switch institutions and those who are credit-induced students — would probably show that private institutions would receive, under a straight tax credit, benefits somewhat more than proportionate to their enrollment. Whatever the advantage to the privates might be in this situation, it would become greater if the credit were equal to a certain percentage of cost or if it applied only to expenditures above a certain minimum. However, quantification of these behavioral changes in terms of the distribution of enrollments or dollar benefits among institutions has not been done, with the exception of the partial analysis by ACE; no analysis of the behavioral changes has been done of any tax credit plan that offers something other than a straight credit.

For the policymaker, the rub is that there is no accurate measure of what particular institutional option a student will choose. Although it is an empirical question, it is not easily tested -- it requires experimenting by changing the education costs and amount of tax allowance to see what behavioral changes occur.

Demand studies of higher education enrollment show that income is positively related to enrollment in private institutions, that is, as income rises, there is a shift of enrollment to private institutions. This behavior is based on the proposition that the individual derives greater utility from an education received in a private institution than that received in a public institution, but this situation may not be the case for all students or for all institutions. The inequity that arises between public and private institutions is that both institutions may offer education services of the same value to an individual but because the cost of attendance is generally much less in the public institution because of substantial tax support, the student is not at all indifferent in attending the two institutions. Reducing the tuition gap is movement in the direction of obtaining equity between the two institutions in their recruitment of students.

In sum, whether public or private institutions are the net beneficiaries depends upon the amount of financial assistance provided, the cost of attendance, and individual preferences for educational options available.

The argument that the proposed tax allowance schemes will not make much difference is based on the fairly small responsiveness of students to changes in price evidenced in enrollment demand studies* and the fact that the amount

of proposed aid is small compared to the total cost of going to college. It is worth pointing out, however, that financial relief -- a primary objective of the legislative proposals -- should not be measured by changes in enrollment. Furthermore, a small change in enrollment can significantly affect the financial condition of an institution.

V. CONCLUSIONS AND RECOMMENDATIONS

Much of the debate this year over expanding student aid has focused on whether the costs of education fall inequitably on the middle income student (or the student's family). The argument is that low income students are assisted by a number of aid programs and that high income students can well afford the costs but that rising cost of attendance is pricing the middle income student out of the market.

Available data simply do not yield convincing evidence either to confirm or deny the allegation of a middle income "squeeze."

In looking at this issue one should distinguish between an absolute and a relative change in well-being. While the cost of attendance and prices in general have risen, so has average income. The net, combined effect of these three factors suggests that middle income students are more able to meet the

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*Demand studies usually estimate the change in enrollment that will occur if tuition were changed at an individual institution or at a type of institution. These estimates overstate the student responsiveness that would result if all institutions simultaneously changed their tuitions, which would be the effect of adopting a tax allowance.

cost of attendance now that a decade ago. However, these factors do not adequately determine the burden in meeting the cost of education placed on persons of varying income levels. A more appropriate measure is discretionary income -- a factor not mentioned in the debate. Furthermore, the stated cost of attendance (tuition, fees, room and board, etc.) is not a good measure of what a student pays because the cost of attendance is reduced by federal, state, and institutional financial aid awards for many students. It is not clear how the distribution of the actual price a student pays has changed over time for different income categories.

On a relative basis, the increase in income for middle income students' families has not been as large as that for high income students' families. This relative change may be more important to one's perception of a middle income class squeeze than the absolute change.

The evidence available from data on changes in enrollments is also inconclusive. Whether the decline has been greater for the middle income class than for the low income class depends on what years one looks at. Furthermore, the implied causality between changes in enrollment rates and ability to meet educational costs is not clear. Much of the change in enrollment rates could be due to changes in other factors. Finally, regardless of the reason for the enrollment decline, the inequity that one attaches to the enrollment changes (or to changes in financial burdens) that have occurred for different income classes rests on the proposition that the ratios among income classes of participation rates (or financial burden) among income classes were more equitable a decade ago (the comparison year) than they are now. This is a completely arbitrary assertion.

If aiding middle income students (or any other particular income group) and reducing the tuition gap are accepted as the two primary objectives in this year's discussion of aid to education, a program can be designed that will make considerable progress toward the achievement of both goals. In order for an aid plan to be effective in aiding a target population (presumably the low or middle income groups) and reducing the tuition gap, it must incorporate two essential elements, ability to pay and cost. Unfortunately, none of this year's proposals, especially the tax credit proposals, can be judged particularly effective on this count.

The tax credit proposals have no adjustment for income and only the Packwood-Moynihan proposal has any adjustment for cost. The credit is limited to 50 percent of costs, but, with the maximum credit equal to $500, the cost adjustment factor is uniformly applied only to expenses totally no more than $1,000.

The BEOG proposal does have an income adjustment factor incorporated into the calculation of expected family contribution, and aid would be proportional to cost to a limit of $3,600, which covers the full cost of eligible expenses at many institutions.

Although it is difficult to decide what scale should be used in providing adjustments for cost and income, a tax credit could be structured in nearly any fashion. Proposals by Senator Ribicoff in 1967 and 1969 and by Senator Hollings in 1977 are examples of tax credit proposals in which the amount of credit one is entitled to diminishes as income rises and increases with cost of attendance.

Confronted with the real choice this year of either a tax credit plan in the form of either S.311 (Roth's proposal) or H.R.3946 (Packwood-Moynihan's proposal) or a modification of existing student financial aid programs (primarily the BEOG program), the decision is difficult. If the modifications to the BEOG and GSL programs were to be those as written in S.2539 (Pell's proposal), modification of the existing aid programs is preferable to the current tax credit proposals. Without reviewing the many arguments that could be made for adopting either program, the factor in the balance is the belief that the modified BEOG and GSL programs would be more effective in aiding middle income students than the proposed tax credit plans would be in reducing the tuition gap, and the BEOG might be less ineffective in reducing the tuition gap than the credit would be in aiding middle income students. Many of the tax credits would be claimed by people who are less sensitive to education costs than other people either because they are high income people or they are people who have a strong preference for attending a particular institution; a few hundred dollars of aid will not change their choices. Consequently, much of the aid becomes tax relief. (If tax relief is the objective, then it is inequitably distributed; it offers relief only to those people who spend money for education.)

However, because an aid program can be structured and targeted for nearly any population of individuals and institutions, preference today for a program modifying the Basic Grant program over a program establishing a tax credit does not exclude the possibility of, or make inconsistent, one's preference tomorrow for a tax credit over a Basic Grant program.

Viewing only the current Congressional proposals for aid to students and

their families, a dilemma is created by the nature of the various proposals. Some provide tax credits for only higher education or for higher education and elementary and secondary education, but none propose tax credits at only the elementary and secondary level. Consequently, although one may believe that the issue of aid to elementary and secondary level should be separated from the issue at the postsecondary level, a decision to support a proposal to modify existing higher education student financial aid programs precludes one from making a decision regarding the form of aid for the elementary and secondary level. A recommendation to modify the Basic Grant program rather than to establish a tax credit is, in a sense, a recommendation concerning only postsecondary education, but such a recommendation, given the current Congressional proposals, does prevent supporting a tax credit for elementary and secondary education this year.

The deliberation about the various mechanisms for aiding students has been at the federal level; this is as it should be given that it is the Congress that must enact any proposal that is to be adopted. However, in designing the form that federal aid programs will take, consideration should be given to the programs of aid provided by the states and to the impact on the states. There are several state issues that should be addressed in conjunction with federal programs but virtually no attention has been given to them.

One issue of consequence to the states of a federal tuition tax credit is the cost to state governments in reduced tax revenues due to lower federal tax liability to which state tax liability is directly tied.

Another issue is the substitution that may occur between state and federal

funds. As has been discussed already, there is concern that federal student financial aid programs will supplant rather than supplement state aid. There is concern that a state will raise its tuition level to capture the value of the credit, or that a state will reduce its support of state scholarship programs.

There is also concern over the change in purpose that federal aid has on state aid programs. With heavy federal emphasis on the BEOG program, which serves mostly low income people, there is a tendency for it to displace state aid programs also established to serve low income students. State dollars may become channelled into aiding needy students many of whom are not necessarily low income but who have need because of a high cost of attendance.

As attention is turned to future activities, two points are worth making. One is that the federal government should, in designing its aid programs, take account of state aid programs. During debate no serious mention was made of state aid programs and how they key with existing or proposed federal aid programs. There are important questions of substitution and supplementation between federal and state aid that are important to both levels of government.

The second point is that there is a need for having better data and analytic capability to assess the effect of various Congressional proposals. While there were a small number of studies that did evaluate certain, specific student aid proposals, it would be useful to have the capability to simulate the outcome of numerous alternatives. This type of capability would have been useful many times during the debate not just on student aid but also on such items as the social security bill and the retirement bill.

The ability to obtain appropriate data must accompany the analytic capability. Many basic questions go unanswered for lack of data. For instance, for the purposes of the debate over aid to middle income students it would be useful to know what the cost of attendance, adjusted for financial aid received, is for students from different income levels attending institutions of varying cost. To illustrate further with another example, how would the distribution of aid change if the half-cost limitation under a tax credit proposal were changed to 25 percent, as it has been in the House passed tax credit legislation. A long list could be made of similar questions.

Aid to middle income students is obstensibly the issue in the legislative deliberations about aid to education this year, and the debate is largely over the issue of whether the appropriate mechanism for providing aid to middle income students is a tax credit or expansion of current student aid programs. Actually, aid to middle income students is only one of the current issues. Legislators are also concerned about such things as the tuition gap between public and private institutions, accountability, and the quality of education. As with most social goals, aid to middle income students is not "pure" but instead intertwined with other objectives which often conflict with each other in their achievement. Consequently, it is difficult to identify any particular mechanism as the "best." What the best alternative is depends on what one deems to be the best compromise among various goals.

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